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THE CONTROLLER'S JOB

Today's corporation operates in an increasingly complex environment, where there are far too many activities for a chief executive officer (CEO) to keep track of. To an increasing degree, this monitoring function falls upon the shoulders of the controller, who must keep the CEO apprised of the performance of all departments, product sales, costs, and profits, control issues in a variety of transaction processing systems, and the impact of new government taxes and other regulations on the conduct of the business. Thus, the controller can reasonably be compared to the ship's navigator, who warns the captain of current or foreseeable problems in the shoals of the business environment that lie ahead and on all sides. In this chapter, we explore the main functions of the controller, how they have changed over time, what kind of background a controller should have, and the role of ethics in the conduct of the job.

HISTORY OF THE CONTROLLER'S FUNCTION

The controller was originally nothing more than a bookkeeper. This person's role was to accurately record all transactions passing through the accounting department, which were primarily related to the payment of suppliers, the billing of customers, or the handling of cash. The controller was also required to issue periodic financial statements, which were just that—no supporting footnotes, executive summaries, or other types of analysis were expected or required. The traditional career path leading to this position was through the clerical ranks, so that the person in the controller's job was intimately familiar with how to manage the transaction flow, and could be relied upon to keep the same old systems running forever.

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The function changed with the advent of computers, since accounting was one of the first company departments to adopt automation. The controller was now required to have more than a passing knowledge of computer systems, including how to select, install, and operate them. The controller even became the manager of the management information systems (MIS) department for many smaller companies, since the accounting department was the main beneficiary of computers. This was also a distinctly different job requirement, which led to the hiring of more college-level people into the position. By doing so, many companies sidestepped the traditional advancement method that no longer yielded controllers with a die-hard attitude toward maintaining the old accounting systems. Instead, we now saw controllers who were willing to modify their systems to make the best use of the new computer software, which brought about some improvements in departmental efficiency.

In the 1970s and 1980s, CEOs became more concerned with the efficiency of *all* company departments, including the accounting function. Supported by the efforts of many consulting gurus, such as Michael Hammer (author of *Reengineering the Corporation*), increasing pressure came to bear on controllers to find new ways to run their departments in order to wring out all possible inefficiencies. This trend forced out many old-line controllers who were uncomfortable with new systems, but brought in a new breed of heavily educated controllers, many of them with advanced educations and consulting experience, who streamlined many transactional systems and began to reach outside of the accounting department to other areas of the company to provide a profit center and other specialized forms of financial analysis.

In the 1990s, and probably well into the new millennium, the focus has progressed along the same trend line we saw established in the last two decades, which is for the controller to manage the accounting department's costs and efficiencies as tightly as possible, while also using a great deal of process and financial analysis skill to assist all parts of the corporation in many ways. Over the course of one century, the controller's function has risen from one of senior clerk to one of the most advanced, highly educated, and useful positions in the entire corporate structure.

MAIN JOB FUNCTIONS

The controller has a number of distinct job functions. The first four are ones that can be ascribed to any manager in any department. The last two are more specialized, and do not refer to management skill. They are as follows:

- *Planning.* The controller is responsible for determining who does the work, what work is to be done, and the timing of work completion in the accounting department, especially in regard to the timely processing of transactions and the issuance of accurate financial statements. This also extends to the budget, where the controller guides the budgeting process through other departments.
- *Organizing.* The controller is responsible for obtaining and keeping the services of experienced and well-trained accounting personnel; this is by far the

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most important organizational task. This also involves obtaining sufficient floor space, office equipment, and computer hardware and software to complete all assigned work.

- *Directing.* The controller is responsible for ensuring that all employees in the department work together in an orderly manner to achieve the controller's plans.
- *Measuring.* The controller is responsible for measuring the performance of all key aspects of the department to ensure that performance matches or exceeds standards, and that errors are caught and corrected.
- *Financial analysis.* The controller is responsible for the review, interpretation, and generation of recommendations related to corporate financial performance. This requires excellent communication skills (both written and oral), so that the controller's information is properly and effectively conveyed to the other members of the management team.
- *Process analysis.* The controller is responsible for periodically reviewing and evaluating the performance of each major process that is involved in the completion of transactions, with the dual (and sometimes conflicting) objectives of maintaining tight financial controls over processes while also running them in a cost-effective and efficient manner.

The successful controller in years past would only be concerned with the first four of the above job functions, but the recent expansion of the controller's job description calls for the addition of the last two items.

JOB DESCRIPTION

The controller has one of the most complex job descriptions of all company managers, because there are so many functional areas for which he or she is responsible. In this section, we list a detailed job description that is sorted by general category in alphabetical order. The controller's responsibilities are as follows:

Auditing

- The scheduling and management of periodic internal audits, as well as the preparation of resulting audit reports and the communication of findings and recommendations to management and the Board of Directors.
- The preparation of work papers for the external auditors, and the rendering of any additional assistance needed by them to complete the annual audit.

Budgeting

- The coordination of the annual budgeting process, including maintenance of the company budget, and the transfer of final budget information into the financial statements.

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Cost Accounting

- The coordination of periodic physical inventory counts.
- The periodic analysis and allocation of costs based on activity-based costing pools and allocation methods.
- The continual cost review of products currently under development, using the principles of target costing.
- The periodic compilation and evaluation of inventory costs.

Financial Analysis

- The periodic comparison of actual to budgeted results, and the communication of variances to management, along with recommendations for improvement.
- The continuing review of revenue and expense trends, and the communication of adverse trend results to management, along with recommendations for improvement.
- The periodic compilation of business cycle forecasting statistics, and the communication of this information to management, along with predictions related to the impact on company operations.
- The periodic calculation of a standard set of ratios for corporate financial performance, and the formulation of management recommendations based on the results.

Financial Statements

- The preparation of all periodic financial statements, as well as their accompanying footnotes.
- The preparation of an interpretive analysis of the financial statements.
- The preparation and distribution of recurring and one-time management reports.

Fixed Assets

- The annual audit of fixed assets to ensure that all recorded assets are present.
- The periodic recording of fixed assets in the financial records, and their proper recording under the correct asset categories and depreciation methods.
- The proper analysis of all capital expenditure requests.

Policies and Procedures

- The creation and maintenance of all policies and procedures related to the control of company assets and the proper completion of financial transactions.

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- The training of department personnel in the use of accounting policies and procedures.
- The modification of existing policies and procedures to match the requirements of government regulations.

Process Analysis

- The periodic review of all processes involving financial analysis, to see if they can be completed with better controls, lower costs, or greater speed.

Recordkeeping

- The proper indexing, storage, and retrieval of all accounting documents.
- The orderly planning for and scheduling of document destruction, in accordance with the corporate document retention policy.

Tax Preparation

- The timely preparation and filing of tax returns, as well as the supervision of all matters relating to corporate taxation, such as conducting an effective tax management program, and both providing and enforcing policies and procedures related to the compliance of all corporate personnel with applicable government tax laws.

Transaction Processing

- The timely completion of all accounting transactions at the intervals and in the manner specified in the accounting policies and procedures manual.
- The proper completion of all transactions authorized by the Board of Directors or in accordance with the terms of all authorized contracts.
- The proper approval of those transactions requiring them, in accordance with company policy.

The above list may appear overwhelming, but just because the controller is responsible for them all does not mean that this person must actually do each one. Instead, the controller is mostly involved in the six job functions noted in the preceding section that are primarily concerned with managing the work of other people and ensuring that they complete the tasks noted in the bulk of the above job description. In particular, a controller can rely on the services of assistant controllers who are responsible for smaller portions of the accounting department.

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JOB QUALIFICATIONS

To be fully qualified to undertake the job description noted in the last section, the controller should have a number of qualifications, which we outline in this section. Though not all controllers will possess these skills, it is most important to have those related to transaction processing and the production of accurate financial statements, for these two areas remain the core of the accounting function. The key job qualifications are as follows:

- *Analysis of information.* The controller must be sufficiently comfortable with financial information to readily understand the meaning of a variety of ratios and trends, and what they portend for a company.
- *Communication ability.* A key component of the controller's function is compiling information and communicating it to management. If the compiling part of the job goes well, but management does not understand its implications, then the controller must improve his or her communication skills in order to better impart financial information to the management team.
- *Company and industry knowledge.* No accounting system is completely "plain vanilla," because the companies and industries in which it operates have a sufficient number of quirks to require some variation from the typical accounting system. Accordingly, the controller must have a good knowledge of both company and industry operations in order to know how they impact the operations of the accounting department.
- *Management skill.* The controller will presumably have a staff, and if so will have considerable control over the productivity of that group. Accordingly, the controller must have an excellent knowledge of the planning, organizational, directing, and measurement functions needed to manage the accounting department.
- *Provision of timely and cost-effective services.* The controller must run the accounting department as though it were a profit center, so that the most efficient methods are used to complete each task, and the attention of the department is focused squarely on the most urgent tasks.
- *Technical knowledge.* To create an accurate financial statement, especially one for a publicly held company, requires a considerable knowledge of accounting rules and regulations. Accordingly, a controller should be thoroughly versed in all Generally Accepted Accounting Principles (GAAP).

ORGANIZATIONAL STRUCTURE OF THE ACCOUNTING DEPARTMENT

The controller does not operate alone, having to complete all the tasks outlined through the last few sections. On the contrary, there may be quite a large accounting staff that completes the bulk of the work. In this section, we review the structure of the typical accounting department, and the tasks completed by each part of it.

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The controller is usually helped by one or more assistant controllers who are assigned different sets of tasks. For example, one may be in charge of the more technically difficult general ledger, tax reporting, financial analysis, cost accounting, and financial reporting tasks, while another covers the major transactions, which are accounts payable, accounts receivable, payroll, and cash application. For smaller organizations, there may also be managers for the human resources and MIS functions who are at the assistant controller level, and who also report to the controller. Below these managers there are a number of sub-categories, staffed either by clerks or degreed accountants, who are responsible for specific tasks. These sub-categories are as follows:

- *Cost accounting.* This position is filled by a degreed accountant who conducts job or process costing and verifies the inventory valuation.
- *Financial analysis.* This position is filled by a degreed accountant who compiles both standard and special-request analysis reports.
- *Financial reporting.* This position is filled by either a degreed accountant or a senior-level bookkeeper who prepares the financial statements and accompanying footnotes, as well as other periodic reports for public consumption if the company is publicly held.
- *General ledger accounting.* Frequently combined with the financial reporting function, this is staffed by similar personnel, and is involved with the review and recording of journal entries and summary entries for subsidiary journals.
- *Payroll processing.* This position is filled by clerks who calculate pay levels and hours worked, and generate payments to employees.
- *Tax form preparation and filing.* This position is filled by a degreed accountant, frequently with tax experience in a public accounting background, who completes and files all government tax forms.
- *Transaction processing.* This position is filled by clerks (usually comprising the bulk of all department headcount) who process all accounts payable, accounts receivable, and cash application transactions in accordance with rigidly defined procedures.

In a smaller company, the controller may also inherit all the finance and office management functions, which means that some of the staff will be responsible for analyzing and monitoring customer credit, investing funds, supervising risk management, monitoring the phone system, and arranging for the repair of office equipment. Conversely, a larger company will not only separate these added functions, but may also move the financial analysis function under the control of the chief financial officer. Thus, the exact layout of the accounting department will depend to a large extent on the size of the company and the presence of other managers.

There can be several levels of controller within a company. The corporate controller is located at the corporate headquarters, while each division may have its own controller. There will likely be plant controllers at each location, as well.

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In most organizations, the controller reports directly to the most senior on-site executive. For example, the plant controller reports to the plant manager, the division controller reports to the division manager, and the corporate controller reports to the chief financial officer or president. All three levels of controllership noted here have many of the same functional responsibilities that the corporate controller has on a company-wide basis.

The corporate controller must decide if accounting operations through all company locations are to be centralized, decentralized, or occupy a position somewhere in between. Many controllers favor centralization, because they can more tightly manage the function and have fewer worries about accounting control issues arising at some far-off company location. However, not all aspects of the accounting function are so amenable to centralization. Here are some of the reasons why decentralization should at least be considered as an option:

- The local organization and retention of accounting information avoids some excuses for inactivity or poor performance because “the report was late” or “the report was wrong.”
- The information sent to a central location is frequently duplicated at the local site, so that the duplication can be avoided by processing it locally.
- The information can be more rapidly processed locally because there is less transit time involved. However, in this day of digital data transmission, most information can be sent to a central location with hardly any delay.
- The widespread distribution of accounting responsibility in the field allows a company to more quickly train promising accounting managers and evaluate them for promotion.
- The presence of a local accountant can assist in the rapid investigation and resolution of problems that would be impossible from a central location.

Offsetting these arguments in favor of decentralization are a number of factors in favor of centralization. The primary reasoning behind the bulk of the pro-centralization approach is that the efficient use of employees to complete a high volume of transactions will keep accounting costs down to a bare minimum. The reasons are as follows:

- The accounting staff can be shifted between tasks to meet peak workloads.
- The use of centralized transaction processing may have a sufficient amount of volume to justify the use of expensive computer hardware and software that will considerably improve efficiency, though it would be cost-prohibitive for a smaller division to use.
- The use of a centralized staff may allow for the added expense of a tailored training program for accountants that will increase their efficiency, but which would be too expensive to create for the smaller numbers of accountants at a single division location.

- The use of a centralized operation may allow for the hiring of more experienced (and expensive) accounting personnel who can do a better job of managing the department.

Thus, the controller has countervailing arguments for using either approach to organizing the department. If a company has a highly diversified group of divisions, then their transactions, chart of accounts, and processes may differ so wildly from each other that it makes no sense to centralize the accounting department. However, a company with “cookie cutter” divisions that are essentially identical in their operating characteristics may be ideal for accounting centralization. In many cases, though, the correct method is to opt for a slightly more expensive middle ground, using a centralized transaction processing organization, but also paying for a small local staff that can process exception transactions, investigate variance problems on behalf of the central organization, and also be a training ground for junior accounting managers from the central accounting office.

ETHICS

The controller is in the uniquely difficult position of having a significant impact on the level of ethics practiced throughout a company. If the controller tends to wink at monetary indiscretions or alter the timing or amount of accruals or other transactions in order to influence reported financial results, then this attitude will gradually percolate down through the organization, until management suddenly finds that the entire company is rife with ethical problems of all kinds. The alternative approach is for the controller to adopt a methodical and rigorous approach to ethical problems, as is outlined in this section.

The first step by the controller is to convince the management team, and the president in particular, that the company must adopt a written ethical standard and force the rest of the organization to adhere to it through regular audits. Once the code of ethics and all related standards of conduct are complete, the management team as a whole must present them to employees, and continue to reiterate, both by example and communication, that these principles are a significant foundation underlying all company operations.

Using these preliminary guidelines, the controller can then expand the concept and promulgate a series of additional guidelines in specific areas related to accounting. Some of them are as follows:

- Attaining annual business plan objectives
- Compliance with SEC and other securities laws and regulations
- Employee discrimination
- Gifts and payments of money for no return consideration
- Leave for military or other federal service

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- Meals and entertainment expense reporting
- Period-end accounting adjustments
- Political contributions
- Preservation of assets
- Restrictive trade practices
- Use of the company car
- Workplace safety

Only by adhering closely to these ethical guidelines, and clearly communicating to the accounting staff that they are the corporate law, will the controller alter the mindset of the company as a whole (and the accounting department in particular) in the direction of using the highest possible ethical standards.